

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ADP-00 L-03 NSCE-00 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

PRS-01 USIA-12 CIAE-00 INR-10 NSAE-00 COME-00 OPIC-12

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FM USLO PEKING

TO SECSTATE WASHDC 0426

INFO AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

C O N F I D E N T I A L PEKING 0570

E.O. 11652: GDS

TAGS: ETRD, BTRA, CH

SUBJECT: PRC BUYS MOTION PICTURE PROCESSING PLANT

1. AFTER TWO-WEEK TALKS IN PEKING, TECHNICOLOR INC. OF THE US AND ITS UK SUBSIDIARY, T.K. LTD., HAVE CONCLUDED SALE OF A 3.3 MILLION (ABOUT US\$ 8.25 MILLION) MOTION PICTURE FILM PROCESSING PLANT TO THE CHINA NATIONAL TECHNICAL IMPORT CORPORATION (TECHIMPORT). THE DEAL IS FOR CASH. ALL EQUIPMENT, TRAINING AND TECHNICAL SERVICES WILL BE PROVIDED BY T.K. LTD. FROM BRITAIN, BUT THE CONTRACT WAS NEGOTIATED BY TECHNICOLOR'S US MANAGEMENT AND WILL INVOLVE REMISSION OF PROFITS AND A TECHNOLOGY FEE BY T.K. LTD. TO TECHNICOLOR OF ABOUT US \$1 MILLION.

2. AS OUTLINED BY TECHNICOLOR BOARD CHAIRMAN WILLIAM MCKENNA, THE DEAL INVOLVES OUTRIGHT SALE BY T.K. LTD. TO TECHIMPORT OF TECHNICOLOR'S IMBIBITION COLOR PROCESS PLUS ONE INITIAL PROCESSING PLANT. THE PROCESS IS LABOR INTENSIVE AND DESIGNED FOR HIGH VOLUME OPERATIONS (2,000 PRINTS OR MORE). WHILE IT IS OBSOLESCE IN THE WEST, IT IS IDEALLY SUITED

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TO CHINESE CONDITIONS, MCKENNA SAID. WITH FULL OWNER-

SHIP RIGHTS TO THE PROCESS, MCKENNA EXPECTS THE CHINESE TO BUILD ADDITIONAL PLANTS OF THEIR OWN ONCE THE INITIAL PLANT HAS BEEN COMPLETED APPROXIMATELY THREE YEARS FROM NOW. THE NEW PROCESS AND FACILITIES SHOULD ENABLE THE CHINESE TO ACHIEVE MAJOR SAVINGS ON MOVIE PRODUCTION COSTS, MCKENNA SAID, AND THEY WILL RAPIDLY RECOUP THE COST OF THE INITIAL INVESTMENT. AT THE SAME TIME, TECHNICOLOR WILL BE GENERATTING ADDITIONAL PROFITS FROM A NOW OUT-MODED PRODUCTION TECHNIQUE.

3. AT TECHNICOLOR'S INSISTANCE, THE PEKING NEGOTIATIONS LASTED ONLY TWO WEEKS, ALTHOUGH MANY COMPLEX PROBLEMS WERE INVOLVED INCLUDING A PRICE TAG THAT WAS L 500,000 HIGHER THAN WHAT THE CHINESE HAD BEEN LED TO EXPECT AS THE RESULT OF PRELIMINARY DISCUSSIONS. TECHIMPORT NEGOTIATORS WERE APPARENTLY EXASPERATED BY TECHNICOLOR'S TAKE-IT-OR-LEAVE-IT APPROACH, BUT NONETHELESS CAME TO TERMS IN NEAR RECORD TIME. MCKENNA AND ASSOCIATES ARE NOW TOURING HANGCHOW, SHANGHAI AND CANTON AT PRC EXPENSE BEFORE LEAVING FOR HOME IN FIVE DAYS.
BRUCE

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